ENTERPRISE ZONES: THE CONCEPT

HEARING

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MONDAY, MAY 17, 1982

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON MONETARY AND FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 1:10 p.m., in room 7, El Monte City Hall, El Monte, Calif., Hon. John H. Rousselot (vice chairman of the subcommittee) presiding.

Present: Representatives Rousselot and Dreier.

Also present: William Keyes, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE ROUSSELOT, VICE CHAIRMAN

Representative ROUSSELOT. I call the Subcommittee on Monetary and Fiscal Policy to order. Good afternoon to all of you. Thank you for coming to testify.

This testimony, I think, is going to be quite important to us, especially when we get down to marking up a bill in Congress on enterprise zones. We are just very pleased to have all of you here.

Before continuing my opening statement, I want to introduce my colleague, Representative David T. Dreier, from my adjoining 35th Congressional District, an individual who I know has been extremely interested in these proposals for some time. As a matter of fact, he has been talking about them for several years.

Congressman, we are delighted to have you here. So, I want to welcome you. And do you want to say something?

OPENING STATEMENT OF HON. DAVID T. DREIER, A U.S. REPRESENTATIVE IN CONGRESS FROM THE 35TH CONGRESSIONAL DISTRICT OF THE STATE OF CALIFORNIA

Representative DREIER. Well, thank you very much, Mr. Vice Chairman. It is with a great deal of pleasure that I refer to Congressman John Rousselot as Mr. Vice Chairman. I hope very much that in the not-too-distant future in the Congress we can continue to give Congressman John Rousselot that label of Mr. Vice Chairman on a regular basis.

It is a pleasure for me to be here today to discuss the practical application of the Enterprise Zone Tax Act and its application to the Los Angeles area.

The Reagan administration has proposed the creation of an enterprise zone program, which is an experimental free market initiative

for dealing with economic distress. The enterprise zone concept is based on utilizing the market to solve the problems of the Nation's economically depressed areas, relying primarily on private sector institutions.

The idea is to create a free market environment in these areas through the removal of taxes, regulations, and other Government burdens. The removal of these burdens will create and expand economic opportunity within the zone areas, leading to the economic revitalization of these areas and to real private sector jobs for the disadvantaged individuals in or near those areas.

The enterprise zone approach is based on market processes instead of subsidies. It focuses on removing Government barriers to economic growth. The concept involves not just removing taxes and regulations within the zone areas, but also attempting to solve problems and provide services through increased reliance on decentralized, voluntary private market institutions, rather than highly centralized, bureaucratic Government institutions.

An additional category of Government barriers to economic growth is inadequate municipal services which the Government has monopolized and thereby foreclosed to alternative providers.

The enterprise zone system could involve utilization of private, local community organizations to facilitate participation by zone residents in the economic development of the zone areas and to help deal with social problems in those areas. As you know, our bipartisan bill in the Congress, the Kemp-Garcia Enterprise Zone Tax Act, is now pending.

The purpose of today's hearing, of course, is to hear from our community leaders, both in business and in Government, to explore how we can best apply the enterprise zone legislation to this Los Angeles area.

Our administration has taken a bold action to help revitalize our cities. And as we are making every attempt to come out of this recession, people are regularly saying that a tax cut is absolutely essential to help pull out of it. I believe that a very essential part of that tax cut package will be our implementation of the Enterprise Zone Act.

Thank you very much, Mr. Vice Chairman. I appreciate being included here today.

Representative ROUSSELOT. Thank you, Congressman. And I am very appreciative of your attendance, because I know you are kind of in the thick of a lot of things.

This is the third hearing we have had in different parts of the country. The first hearing on enterprise zones—and we primarily discussed the concept—was held last October in nearby Inglewood. At that time, Senator Hayakawa participated, and Congressman Mervyn Dymally and Julian Dixon also participated in that hearing. We heard from a wide spectrum of groups and people. We are very appreciative of those that came today to do the same thing.

Senator Mattingly of Georgia, and Congressman Newt Gingrich held hearings in Georgia recently, as a matter of fact in January. Furthermore, the Joint Economic Committee intends to have additional hearings in other parts of the country, to make sure that we are hearing from all of those who will be affected.

So, we are very grateful to those of you who are willing to take the time.

[The written opening statement of Representative Rousselot follows:]

WRITTEN OPENING STATEMENT OF REPRESENTATIVE ROUSSELOT

Good afternoon. This hearing of the Joint Economic Committee's Subcommittee on Monetary and Fiscal Policy is called to order.

Today's hearing, entitled "Enterprise Zones: The Concept," is the third in a series of hearings on the subject. The first was held last October in nearby Inglewood. Other Members of Congress joining me to hear testimony from some of the nation's foremost authorities on the subject of Enterprise Zones were Senator S. I. Hayakawa and Representatives Mervyn Dymally and Julian Dixon. The second JEC hearing on Enterprise Zones was held in January in Atlanta, Georgia. Senator Mack Mattingly of Georgia chaired the hearing and was joined by Representative Newt Gingrich. Today, I am proud to chair the third of the JEC's hearings on this most important subject.

My name is Congressman John Rousselot, and I represent the Twenty-sixth Congressional District of the State of California in the U.S. Congress.

The witnesses are all experts, to varying degrees, on the subject of Enterprise Zones. The three panels are as follows:

GOVERNMENT PANEL

Our first witness is Arthur Snyder, a Los Angeles City Councilman.

Councilman Snyder is chairman of the Los Angeles City Council's Committee on Industry and Economic Development. We know his testimony will be enlightening.

Los Angeles Councilwoman Flores testified at our October hearing. We appreciate her willingness to come before the subcommittee at that time to discuss this very important issue. It is my understanding that Councilwoman Flores has been doing some work to help the City of Los Angeles compete for Federal Enterprise Zone designation.

Then we have James Beall, Jr. a San Jose city councilman.

Councilman Beall was successful in getting the City of San Jose to set up an Enterprise Zone. His experience should be a valuable contribution to our hearing record and to the body of literature on the subject.

Our next witness will be Mary Gray, deputy to Supervisor Dean Dana, Los Angeles County Board of Supervisors.

Joan Lowe of the Los Angeles County office is also in the audience as well as Jerri Kariya, deputy to Supervisor Mike Antonovich.

BUSINESS PANEL

This panel is represented first by Ted Watkins, president of the Watts Labor Community Action Committee (WLCAC).

Mr. Watkins is known to many of you because of his appearance on CBS "60 Minutes" and because of articles about him and the WLCAC in the local newspapers. But most importantly, we know about Mr. Watkins because of the great success of his project in South Central Los Angeles.

I am sure Mr. Watkins' insight and comments today will help us in our effort to draft the most effective package of provisions to spur economic development, job creation, and community revitalization.

Next will be Willard Z. Carr, president of the Los Angeles Chamber of Commerce.

Mr. Carr, we understand that the chamber has not taken firm positions regarding all the "ins and outs" of Enterprise Zones. Nevertheless, your statement and involvement in this hearing are invaluable because you are well aware of the taxes, regulations and other factors which are barriers to economic development. It is these barriers we wish to remove with the establishment of Enterprise Zones.

NEIGHBORHOOD ORGANIZATIONS

This panel is led off by Ralph Ramirez, representing small businessmen and minority businessmen followed by Frank Miranda, research director of MaraVia Project Area Committee.

Along with being a general neighborhood service organization, the MaraVia Project Area Committee serves as an advisory group to the Los Angeles County Redevelopment Department. In both capacities, Mr. Miranda has been intimately involved with studying the issue of Enterprise Zones to see how they could apply to his project service area, which happens to be 90 percent Hispanic.

There are two major areas of focus for today's hearing. First, we are interested in dealing with the concept of changing taxes and regulations as a means of stimulating economic activity within depressed areas. Our witnesses are prepared to tell us what types of tax cuts, regulatory changes and other incentives should be made to enable people living within the zones to start their own interprises, to attract a small number of businesses into the zones, and to facilitate job-creation and the upgrading of services.

Let me emphasize that the Enterprise Zones will be most effective if we find a way to enable the people who live right there in the zones to develop productive enterprises rather than rely on others to come in from the outside to bail them out. It is the dream of many inner city residents to take control of their own destinies. I believe we should draft Enterprise Zones legislation in such a way as to help them.

The second major area of focus for this hearing is the management of Enterprise Zones at the zone level. There are some who believe the businesses operating within the zones should manage them, some believe neighborhood organizations should manage the zones, still others believe City Hall should do it, and there is a growing number of people who think it would be most appropriate to create a quasi-official Enterprise Zones Authority, or Enterprise Zones Corp., to manage the zones. We will hear the suggestions of our expert witnesses on this subject.

Again, welcome to this Joint Economic Committee's subcommittee hearing.

Representative ROUSSELOT. Now, the first individual I would like to call on is Los Angeles City Councilman Art Snyder, who is part of our government panel. With him is a city councilman from San Jose, Jim Beall.

Mr. Beall, if you want to come up and join Mr. Snyder, we would appreciate it.

Also, Mary Gray, who is a deputy to Supervisor Dean Dana, is here. We would be delighted to have you join this—we call this our government panel, individuals who are active here in California and the local area.

And we will start with you, Art. I am sure you are all pressed for time, so we won't say that anybody is busier than somebody else. But Art, I know you have served not only in the city council, but you have been very active and interested in this concept, in the city government in Los Angeles. And as an elective representative, we are very appreciative because you serve as chairman, as I understand it, of Los Angeles City Council's Committee on Industry and Economic Development. So, this concept is right down your alley.

Please proceed.

STATEMENT OF ARTHUR SNYDER, COUNCILMAN, LOS ANGELES CITY COUNCIL, LOS ANGELES, CALIF.

Mr. SNYDER. Thank you, Congressmen Rousselot and Drier. I want to thank you for the invitation to the city of Los Angeles to be represented.

There were going to be two of us here today, Councilwoman Joan Flores——

Representative ROUSSELOT. Yes. She testified at our October hearing, in Inglewood. So, she has already put in her positive testimony. We are glad to have you, too.

Mr. SNYDER. To show you what a good testifier she is, she is in Washington now testifying on the Mono Lake issue, as——

Representative ROUSSELOT. Oh. We have heard of that one.

Mr. SNYDER [continuing]. Chairman of Los Angeles Energy and Natural Resources Committee.

Congressmen Rousselot and Dreier, when I first heard of the enterprise zone concept, I was reminded of that wonderful quote from Eric Hoffer that said:

> I knew with every fiber of my being that the city only was man's home on this planet, that it was his only refuge from a hostile, non-human cosmos. I did not have to be a scholar to recognize that man's greatest achievements were conceived and realized not in the bracing atmosphere of the deserts, plains, forests, and mountaintops, but in the dirty, smelly, noisy, overcrowded cities of Jerusalm, Athens, Shakespeare's London, and Rembrandt's Amsterdam.

And he said:

> If this nation decays and declines, it will not be because we have raped and ravaged a continent, but because we did not know how to build and run viable cities. America's destiny will be decided in its cities.

I was really thrilled with the entire concept, because it moved us from a concept in which the poor are put on a permanent dole, are thrown the leftovers of society, and said, "Now you be contented to munch on these and we will throw you some more when you are finished with those," and allowed instead to look at the possibility that there will be a way in which they can earn their own living.

And this is, to me, the greatest gift of all to the people of the community that I represent. There is nothing that they desire more than the opportunity to earn their own living. I represent the east Los Angeles side of the city, the community that is 85 percent Hispanic surname, the lowest average income in the city of Los Angeles.

In spite of the fact that we have the lowest average income, we also have one of the lowest—actually—crime rates, one of the lowest welfare rates, and from time-to-time one of the lower—although certainly not the lowest—unemployment rates in the city, because they are people who want to work.

On the other hand, we have a community that is very, very old, a community in which 30 percent of the housing predates the turn of the century, which, for Los Angeles, is a very old housing inventory. An old and outmoded industrial base, filled with old buildings, very inefficient use of the substantial amount of industrial land.

It has been difficult for us to compete with those areas to which a lot of our industry has gone. When the industrial base began to age and when the factories began to become obsolete, we found a trend that, instead of rebuilding with modern factories within that community—in which, by the way, less than half of the people have even one automobile; we are very heavily transit dependent, an immobile population—instead of rebuilding within the community, they took the advantage of moving out into the suburban areas of the Los Angeles basin, and to Orange County, into areas in which new buildings could be built, new factories constructed, new equipment brought forward, and new manpower built—new manpower hired.

Unfortunately, it left a substantial number of people within the center area of the city without jobs and with no ability really to move from Los Angeles' east side to Orange County to find jobs that in turn

were quite often more highly technical because of the new plant that had been developed, more highly technical than that in which they had worked—and of course, no systems at retraining.

The result has been that we have this very large industrial area underutilized, with no substantial effort on the part of industrial developers to come forward and redevelop it.

When the enterprise zone concept was put forward by the administration, it sounds like it is really made for the east side of the city.

I might say that one thing that has caused me some concern is that every time anybody talks about Los Angeles and an enterprise zone, from a voice in Washington, they always say "Watts." You know, it is not that we don't feel that there are problems in Watts, because indeed there are, although they have a little higher average income than we have on the east side. It has always made us feel a little bit strange in our community that when people started talking about giving help to someone in Los Angeles, they are "Watts."

We didn't burn down our community in 1965. There were very many people who attempted to try it, but the cooler heads prevailed in our community, and the people continued to work for their own self-improvement, with some success, although because of the characteristics of the community, it is very difficult to find general affluence.

But we are concerned that the voices from Washington that speak of Los Angeles, may find themselves fixated on the Watts community because of the fact that it made the Washington papers a few years back and everybody seems to talk about it.

I just want to assure, through you gentlemen, the Members of Congress, that we have another part of Los Angeles that has very real problems. And this was reflected in the fact that during the Model Cities program, an application was started to be put in for the Watts area and was blocked by the city council until equal treatment was given to the east side of the city.

And I hope that you gentlemen will carry back, to those who are in positions of power relative to the enterprise zone program, the fact that we do have another part of the city with a lower income, with extremely hard-working people, people who desire to work, who will do anything for a decent job and for decent training.

The city council, on February 16 of this year, by a unanimous vote, acted to support the enactment of the Federal enterprise zone—on my motion, by the way—acted to support the enactment of Federal enterprise zone legislation.

As a part of that action, the council directed the city's Federal legislative representatives to seek seven amendments which we feel are necessary to strengthen this legislation. Those amedments would accomplish the following:

First, it would remove the limitation of "up to 25 zones per year," and substitute a provision of "a minimum of 25 zones per year."

You can see that we are talking—while we, in all probability, would be among those—about being the second largest city in the United States and certainly of provable need, we would probably be among those in the 25. Yet, nevertheless, we have so much faith in the future of the enterprise zone concept within the American Government and the American economy, that we do feel it incumbent upon us to press

for an expansion of it even at this point, even before it comes into existence, which gives you a lot of faith.

We would suggest that the present tax incentive carryover provisions, instead of as carryovers, be directly refundable at the option of the taxpayer. We feel that that would have an immediate favorable effect on the areas.

We would like to ask that there be clearly defined a size criterion for the zone. When we got into the Model Cities program some years ago—it was then the Demonstration Cities, but they changed the name—"Program"—we started off with a very small area, and then we got rejected because it was too small. We thought that was what they wanted.

Then we came back with a very big area, and they almost rejected that but we cut it back. So, it would be extremely helpful if there could be a size criterion definition.

We feel—and we look at it from the prospective of Los Angeles—that the 20-percent population decline criterion, as a qualification condition, is an unreasonable criterion. Now, it may be that there are areas that are so affluent that they can't fit in the other definitions, and we have to go on a decline of 20 percent between 1970 and 1980. In our community, maybe San Marino would fit into that.

But let me tell you that no poor area in Los Angeles is going to fit into that. I have got in my community children running out my ears. We have got a community in which many census tracts have an average age of 11, 12, or 13 years of age, as an average age for the entire census tract.

We have a population boom going on and we hate to see a criterion such as that put in, in which obviously we are so far away from it, that it might be damaging to our application.

The same thing is true in all our low-income communities.

Now, perhaps there are some cities in which the disintegration has become so bad that they have had to evacuate the areas, but to us, we are trying to obtain industry and economic activity in areas where we do have people. Unfortunately, we don't have jobs, even though it is not a deserted area. So, that was our suggestion.

We have suggested that an additional incentive of a 5-percent tax bonus for employers who hire in excess of 25 percent of the work force of a zone business—hire in excess of 25 percent of the work force of a zone business from the residents of that zone, so that you give a direct incentive. When you come into a community such as mine, you build a factory and take the advantages of it, but you at least hire the people that are around in the neighborhood.

The concern is, of course, that people would bring in their own work force, establish within a zone but then bring in their own work force. And our purpose, of course, is not just general economic activity but hopefully economic activity that would involve employment of the local people. And that specific type of incentive, we feel, would be helpful.

We would like to suggest that the tax incentives that are proposed by the administration be extended to include lenders who grant loans within the zones. Sometimes that is a very difficult thing for us. And possibly to insurance carriers who insure within the zones. In some of the parts of our city—not particularly mine, but in other parts—

obtaining insurance is very difficult. And that, of course, is a necessary economic activity.

We would like to ask that the States' participatory oversight be limited to those areas where there is State regulatory authority and/or to those areas in which the State desires to contribute incentives to the zones. We would hate to see a situation in which the State government, having made little or no contribution, comes in from their vantage hundreds of miles away and decides—attempts—to dictate how to run a local zone.

We might suggest that the A–95, the clearinghouse process, that is presently in place for Federal programs, be used and that State participation be limited to that process.

That last recommendation leads me into a major concern that we have in regard to the proposed legislation. That is the provision that requires that States and local governments jointly nominate zones, and jointly pass enabling legislation regarding zone incentives. We feel that these provisions limit local government's participation in the program, providing the State with the power to, in essence, veto a local nomination of an enterprise zone.

We feel that the States should be encouraged to provide incentives and assistance to local government, but that they should not be allowed the veto power, nor should they be allowed to nominate a local zone without the official approval of the affected local government.

New York City Councilwoman Ruth Messinger reflected our concern—the concern that we have—when she testified before the Senate subcommittee hearing, when she said, "After all, these are urban enterprise zones." It becomes a little awkward sometimes to have our friends who are in other parts of the State writing legislation that is specific into the city of Los Angeles, from the vantage point of little or knowledge whatsoever about what is going on. And when you are dealing with something of this type, which is so local in nature—we have not such great problems as we have had in the past sometimes from the Federal Government, who deals with us from a prospective of 3,000 miles, but something similar to it, or people with their own political agendas utilizing them for whatever purpose on a State level, not reflecting accurately the needs of a local community, because it is imperative that the local incentive packages reflect local concerns.

Every community is different. Each has their own resources and problems that may not exist in another area. I hasten to say that my community is extraordinary, that we are the largest concentration of Hispanic people in the United States—that live in my councilmatic district. I have about 200,000 Mexican or Mexican/American people that comprise a substantial city if they stood alone.

And they have specific and different problems from—well, even within our own city—the south central part of the city of Los Angeles. Certainly, specific and different ones from other low-income neighborhoods in cities that may be represented here today.

The local legislators and community people, we feel, are best equipped to know and to understand this.

We are also concerned—and I would like to reflect this to you—that without adequate funding for some of the other existing economic development and labor programs, that the enterprise zone program may be far less successful than desired. And, particularly, I would like

to point to job training programs, commercial revitalization, UDAG, housing rehabilitation programs that we have currently operating in our communities.

I think it is going to be extremely important if we are going to benefit these communities as they are defined as the people of the community, that opportunities be given for training for the jobs that are going to be created. And if we cut off the training programs and bring in the factories, again it is the same concern that I reflect as I ask for additional incentives for people to hire within the communities, that there is the concern that people will come into the community, bring their own existing personnel from outside of the community, and add very little except their presence there.

And that can be offset by the two things: Incentive and also a tool by which people may be trained and prepared to work in the new industries which are brought to us.

I hope that I reflect sufficiently my enthusiasm for the whole idea. Enlightened self-interest is the greatest motivating factor of mankind or maybe even just plain self-interest. And the greatest single power of this Nation is its industry and the private enterprise system. If the private enterprise system can be motivated by self-interest to take the steps which are necessary to bring economic change within the low income areas of our cities, I think that we are going to tremendously benefit.

Toward that end, we in the city of Los Angeles have already taken steps to result in an early application to the Secretary of HUD for designation as enterprise zones in Los Angeles. We have directed the departments of our city to—we have formed a task force which is operating under the committee which I chair and in which the city departmental people are mandated to watch very carefully the hearings such as this and the developments that the drafters of the legislation are perceiving, and as the trends in the legislation seem to shift and change, to shift and change our understanding, and to be prepared when a final bill is there to proceed as far as we can before the guidelines are drafted, and to be prepared as soon as the guidelines are promulgated to immediately file application.

We are so excited about it. I would like to tell you what we have done. We have actually taken the steps to have the ordinance drafted to create the enterprise zone board in the city of Los Angeles. And that enterprise zone board is the city council. We are the enterprise zone board in the city of Los Angeles, or will be.

We went through the poverty program, CSA's precedence, and handed off the responsibility that was given to the city of Los Angeles, under that program—separated ourselves and our responsibility from it, as far as we could possibility separate ourselves, and turned it over to a nonprofit organization. And I think that a substantial part of the failure of that program within the city of Los Angeles is directly attributable to those people who are responsible to the people and who ought to have that responsibility and bear it directly, and be accountable to the people, divested themselves of that responsibility.

It is a significant thing that the city council has taken that step, was willing to take the step. And let me tell you, it was not without controversy, as who wants to be the responsible party for a new idea

that may or may not work; let's see if it works first and then we will take the credit for it. But this has been an important step on our part.

We have also done the same thing in the creation of the Los Angeles Industrial Development Bonds Authority, both under my motion.

But we are enthusiastic, awaiting the enactment of the legislation. And as soon as we see it, you will see us first in line.

Representative ROUSSELOT. Well, thank you for being here, Councilman Snyder. And we are grateful that your city is moved so positively to make it clear that you are ready to go and that you are prepared to receive the program if we can ever move and Congress can get it done.

I know that President Reagan is anxious to get a bill through the Congress and wants to see it happen. And the fact that you have done so much to prepare yourself as a city for that activity, you are to be commended for doing so, anticipating what will happen.

Let me just quickly have each of the others that are here on this Government panel speak, and then we will have a couple of questions. I know Congressman Dreier has to move on to another meeting.

But Councilman Jim Beall, from the city of San Jose—they were successful, as I understand it, in San Jose, in getting the city to set up an enterprise zone as a test operation. And your experience should be a major contribution for us in this testimony, in the hearing record. And any additional appendix items that you wish to attach or put in the record we would be glad to have, any of the things that you have gone through.

How recently did you set this up?

Mr. BEALL. Well, we set it up in September of last year.

Representative ROUSSELOT. Oh. Well, if you want to go ahead with your testimony and then we will probably have some questions for you, because the fact that you have already started it, set it up, I am sure will be of interest to this community.

Thank you for being here.

STATEMENT OF JAMES T. BEALL, JR., COUNCILMAN, SAN JOSE CITY COUNCIL, SAN JOSE, CALIF.

Mr. BEALL. Thank you. I found El Monte, and I am here.

And I would like to thank you for inviting me. And I am pleased to have the opportunity to share the views with Congressmen Rousselot and Dreier on the enterprise zone concept.

I am going to talk about two things. I am going to talk, first of all, about the San Jose program, and then also the Federal program, as well.

Representative ROUSSELOT. Thank you for doing that.

Mr. BEALL. The city of San Jose has embarked on a new local program, called the central incentive zone concept. And this program that we have closely follows the concept of enterprise zone, as talked about at the Federal level.

First, in this San Jose central incentive zone, taxes on rehabilitation and new construction are waived in the San Jose incentive zone. And that is construction taxes.

It was found after reviewing the various taxes that we have, that we were most able to waive those taxes without having a drastic fiscal

effect on our city's viability. Those are taxes that do not relate to our operating budget, which at this time we have approximately a $20 to $25 million shortfall, out of a $160 million budget.

So, we are very concerned in the fiscal times that we have right now that we do not proceed rapidly in waiving any taxes relating to our operating budget.

But the capital side, we did find that we could waive construction taxes, which go into our capital budget.

As an example, if a person wanted to build a 200,000-square-foot building in San Jose, and he wanted to build it outside the incentive zone, he would pay construction taxes of approximately $950,000. Inside the zone, he would pay no taxes. So, that is the magnitude of the waiver. As far as we are concerned, it has had some effect since September, since we have had three large office buildings proposed of that magnitude.

Second, a number of nontax type of incentives have been adopted or are under consideration. These include fast tracking of the permit process, business loan programs, and the review and simplification of zoning, building, and historic preservation codes. Such things as minimizing the parking requirements, allowing increased densities. Other types of zoning and building code waivers are being implemented in the San Jose Central Incentive Zone.

Third, the city of San Jose has encouraged private, nonprofit economic development corporations, such as the San Jose Development Corp. and the San Jose Downtown Development Corp., to help focus interest in the incentive zone.

And last, the city has retained staff to market the zone and walk through the approval process with existing and potential businesses.

And that last thing is the most important thing, in my opinion, that you not only set up the zone, you have to go out and sell it. You can't just sit back with the legislation. You have to proceed to market the proposal. And when we originally adopted this idea, we discussed it with small businesses and large businesses in San Jose. And the one thing that they told us is, yes, it is a great idea, but you have got to go out and tell people what the benefits are. So, that is what we are doing.

The San Jose Central Incentive Zone is located in approximately the same area that is a UDAG eligible area and meets the proposed Federal income and unemployment standards. The area has a high concentration of Latin American and lately an increasing number of Indo-Chinese residents.

As it was in the Eastern United States at the turn of the century, these immigrants are starting up small businesses in the San Jose Central Incentive Zone with their own resources. Many fail because of a lack of understanding of the complex American laws governing their businesses.

They are willing to take the risk. It is a risk many must take because they have nowhere else to go. The city of San Jose would like to help these new Americans overcome the many barriers they must scale to be successful. They certainly have a willingness to compete in the free market system.

The San Jose Central Incentive Zone was established in October of 1981 and will remain in effect until January 1, 1987. The

city council will conduct yearly reviews of the program to monitor its performance.

There are so many options for additional incentives that could be placed in the zone and the problems that should be ironed out as the program proceeds.

The city of San Jose would like to participate in the Federal enterprise zone program that is compatible with our needs. And we have reviewed the Kemp-Garcia proposal in San Jose, and we have some similar comments as made by the city of Los Angeles. And we haven't officially endorsed the bill for last year.

We are presently reviewing the new proposal and will be submitting comments to you at a later date.

Regarding the Federal concept, the Congress is presently considering several proposals for a nationwide program. The flexibility in the Federal program, as provided in H.R. 6009, adopts—allows cities the opportunity to create a program at the local level that is designed to meet the special needs of the area, rather than following a burdensome Federal formula for economic development that might not be appropriate.

The flexibility allows the local economic development strategies to work more effectively. Specifically, the discretionary authority to relax or eliminate the regulatory requiremnts of Federal agencies, except those which govern civil rights, safety and health, should be exercized only when requested by local agencies.

The enterprise zone tax incentives at the Federal level are susbtantial as proposed, but should not be considered as a replacement for Federal community development block programs or capital improvement-oriented grants programs.

The March 23, 1982, statement of President Reagan stated: "Cities will still have the option of allocating discretionary Federal funds for their enterprise zones if they desire. . . ."

Likewise, local government's capital resources will continue in San Jose to fund the needed improvements in the zone, even though taxes from construction and rehabilitaion which fund capital improvements are waived. The Federal Government should likewise view the Enterprize Zone Tax Act incentives not as a replacement program but as a compliment to Federal programs in distressed areas.

The need to develop complimentary enterprise zone programs at the Federal, State, and local level cannot be overemphasized. The local governments are better equipped to identify workable economic development strategies for enterprise zones, while the State and Federal Governments have more leverage on tax incentives and regulatory relief.

Once a package of incentives, tailormade to the local needs, is established, the marketing and implementation of ongoing program can begin.

And I would also like to add that the issue of legal liability for the contracts with any local neighborhood development corporation is a very, very serious issue with local governments. Our legal liabilities have been expanded at the State level here in California, and we are very concerned about that question being expanded at the Federal level as well.

And I would like to thank you for the opportunity to talk to you today and share your ideas.

Representative ROUSSELOT. Thank you very much for being here, Councilman Beall. We are grateful for your taking the time to testify and also for your suggestions, along with Councilman Snyder.

Now, I know both of us have a couple questions, but Mary Gray, we are going to hear from you now. We understood you were accompanied by others from Los Angeles County. They are welcome to be up here at the table, if they would like to be. Are you going to stand alone?

Ms. GRAY. They are here for support, but they also may answer questions.

Representative ROUSSELOT. Well, why don't we have them come on up——

Ms. GRAY. OK. They are here for support.

Representative ROUSSELOT. You are deputy, as I understand it, to Dean Dana.

Ms. GRAY. Yes, sir.

Representative ROUSSELOT. And you have been working on this with other members of the county board of supervisors and staff. We would be delighted to have your testimony and thank you for being here.

STATEMENT OF MARY GRAY, DEPUTY TO SUPERVISOR DEAN DANA, LOS ANGELES COUNTY BOARD OF SUPERVISORS, LOS ANGELES, CALIF., ACCOMPANIED BY JOAN LOWE, STAFF, CHIEF ADMINISTRATIVE OFFICE

Ms. GRAY. Thank you, both Congressman Rousselot and Congressman Dreier. I want to thank you for the opportunity to testify before this subcommittee to present the Los Angeles County Board of Supervisors' views on pending enterprise zone legislation.

After years of costly, and often ineffective, Federal Government spending programs, the board of supervisors is pleased to support the concept of solving urban decay and unemployment by reducing the Government regulation and relying on private sector initiatives.

While we wholeheartedly support the concept put forth, we are concerned with several issues which your subcommittee should discuss.

The structure of criteria proposed in Federal legislation were obviously drafted to qualify urban areas in the Northeast, while obviously—where unemployment and blight are very densely compacted. Under these criteria, few Los Angeles County census tracts could qualify. Therefore, it is the board's position that qualification of zones be based on local, as opposed to national, demographic comparisons.

Specifically, we recommend the legislation be modified in this manner:

First, change the method of determining the median income and the percentage of residents required to be low income. Hud should direct the Census Bureau to change its method of calculation from combining of families and related individuals into a single base, to treating them separately while comparing them to the median income in the county.

Provide that the local standard metropolitan statistical area un-

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employment rate and aid to families with dependent children data be used in zone designation, instead of national unemployment statistics.

Provide that areas experiencing large population increase, as well as decreases, also be considered for enterprise zone legislation.

Provide that the number of zones be based on need, rather than arbitrary limits of 15 to 20 zones per year.

In addition, the requirement that a jurisdiction be eligible for an urban development action grant or that the applying uncorporated community have a pocket of poverty designation, poses a handicap on our distressed area.

The Los Angeles County represents a diverse collection of communities, most having their own city governments. That represents 82 mayors and 346 city council members. These incorporated cities may be considered separately for UDAG eligibility. However, communities in the unincorporated portions of the county must all be considered together. This results in communities, such as East Compton unincorporated, being lumped together with far wealthier areas, such as Malibu, and determining an overall statistical average.

This method is unfair to a distressed community miles apart from a wealthier one. The distressed community must be considered under the more stringent pocket of poverty designation, while adjoining unincorporated cities with similar symptoms of distress, such as the city of Compton, are able to qualify as UDAG eligible.

The UDAG criteria, which focuses on the age of housing and population decline, which are greater factors in the East, were not created with enterprise zones in mind. Therefore, we ask you not to impose them on us in enterprise zone, or to at least amend the legislation to allow distinct, separate, unincorporated communities be considered individually for UDAG eligiblity, rather than the county as a whole.

Other areas that Congress may wish to consider for amendments are:

One, extension of tax incentives in the legislation to include lenders who grant loans within a zone.

And two, extension of similar incentives to insurance carriers who insure within a zone.

You may wish to consider the following as examples of incentives:

Allowing the time period for utilization of tax credits or other incentives to be extended if there is minimum return on initial years of operation.

Allowing these credits and abatement benefits to be transferred to successive firms of a merger or acquisition. The treatment of accounting, legal, or other management costs as amortized capital investment over a period of 10 years. The elimination of many Federal regulatory controls, particularly in the banking and savings and loan industry, giving them more options, such as pooled investment.

The inclusion of an incentive public works or financial program as a strong element in selection, with an overall evaluation on the potential success of a proposed zone.

These incentives may be particularly helpful in inducing investors in the lending institutions to provide startup capital for new or smaller businesses.

Other areas of great concern to us at the local level is the Federal requirement for State legislative action in designation of a zone. We are aware that 16 State legislators have already enacted enterprise

loan legislation and are cooperating with local governments to facilitate zone designation.

Yet, in California we are awaiting the first hearing on an enterprise zone authorization bill. It is our feeling that local government or governments seeking to reverse unemployment and decline through an enterprise zone should not be absolutely precluded from designation due to the lack of State enabling legislation.

While Los Angeles County Board of Supervisors supports and encourages State cooperation and incentives, it is in the interest of local control to limit the State's review power to those areas of State regulatory authority or to those areas in which the State desires to contribute incentives to the zone.

In addition to specific legislative amendments, I understand your subcommittee is seeking input on the role local government should play in administering a zone. We in Los Angeles County believe the least zone administration at the local level will be best. This is in accord with the overall goal of the enterprise zone concept to reduce the layers of government regulation.

It is our position that the overall purpose of administration at the local level is to provide the foundation, deliver services and expedite that required review process with as much speed and simplicity as possible.

In recognition of the fact that only 25 zones will be designated nationwide during the first year, and urban problems transcend municipal borders, our county enterprise zone task force is working with the city of Los Angeles and others to identify potential zone sites and to develop incentives necessary for local economic development to occur.

And you can see we in the county of Los Angeles are committed to putting together a strong enterprise zone proposal. And I thank you for seeking our input and look forward to achieving our mutual objective, revitalization of our urban centers.

Thank you.

Representative ROUSSELOT. Thank you also, Ms. Gray, for your part. Please tell the supervisors that we are very much impressed with their input that they have given here today, and that they have raised some points I am sure that the drafters of the legislation at the Federal level have not yet thought about or at least have not incorporated in their—included in the legislation.

Ms. GRAY. I do have copies of an outline of my testimony on the desk.

Representative ROUSSELOT. Good. Thank you very much.

By the way, each of you can submit anything additional that you would like to have included, because these hearings will eventually be printed, and the input will certainly go to the committees that have jurisdiction in drafting this legislation.

I am going to let my colleague, Congressman Dave Dreier, go ahead with his questions that I know he has for each of you, because he has to move on to another meeting.

Representative DREIER. Great. Thank you very much, Mr. Vice Chairman. I appreciate the chance to ask a few questions before I do take off.

It sounds as if many of the questions that Ms. Gray brought up could probably be answered by Councilman Beall, who has already

seen some success in implementation of what we call the "Enterprise Zone Act." I think you have a great term for it, the central incentive zone.

It sounds like a tremendous idea. I would like to ask a couple of specific questions, though.

Some concern has been raised about the issue of whether or not—and I think every one of you has brought the point up—whether or not a certain number of disadvantaged people will be hired and will large corporations simply come into the labeled enterprise zone and take advantage of the tax benefit and the lifting of those restrictions, and then not hire in that area.

Councilman Snyder pointed up the 5 percent bonus. I should say that while the Kemp-Garcia bill in the House at this point does not incorporate a provision to rectify that, the Senate version of the legislation does directly address that problem. And so, we are hoping that on an overall basis across the country, we will be able to mitigate any problem that could be created by corporations simply moving into an enterprise zone and not hiring those who are unemployed, which is really the raison d'etre here for our whole package.

But I would like to ask about small business. There has been some concern voiced in Washington, by the National Federal of Independent Business and a number of other small business organizations, and Councilman Beall mentioned that there was a marketing attempt made there in behalf of both large and small business. I am curious to know what kind of reaction you received from the small business sector of our economy with respect to your San Jose central incentive zone program?

Mr. BEALL. Well, the thing that the small businessman seems to be most interested in, as far as our local efforts, is knowing that somebody is going to be there to help them. And we have hired staff specifically assigned to this, to answer the questions and serve as the information center for the small businessmen.

We also have local small business loan programs at the local level.

Representative DREIER. Who has responded most favorably so far, larger business or small business, to your——

Mr. BEALL. Well, small businessmen have not—in terms of actual construction, you are finding two types. You are finding rehabilitation of existing structures by smaller entrepreneurial-type business, and you have large-size buildings going in as well. So, the two different types are happening. I wouldn't say one over the other. Although, certainly, San Jose has made a big effort in encouraging the smaller scale type of development by our fast track process.

Representative DREIER. Would you make any recommendations for us at the Federal level as to how we could possibly encourage the small business sector to be equally as interested in the enterprise zone package?

Mr. BEALL. Well, the one thing I know that Councilman Snyder mentioned, that probably would help the small businessman the most, would be to make—as far as the Federal legislation—the tax credits refundable.

I think that, rather than the way it is now, as I understand it, it is nonrefundable tax credits.

Representative DREIER. Yes.

Mr. BEALL. That would be a major incentive that has been mentioned, I believe, by other groups, such as the Heritage Foundation and other groups.

Representative DREIER. How exactly, in San Jose, did you determine how the enterprise zones were established? What was the major criteria that you used?

Mr. BEALL. Well, we were concerned about possible Federal legislation, so what we did is we looked at our UDAG eligible areas and worked from there.

We also looked at our existing physical situation in San Jose. We looked to such things as sites where we had vacant cannery buildings that have moved to the Central Valley, that are standing vacant at the present time, and tried to include those in the enterprise zone/incentive zone. And just the structural situation and the zoning situation, as well. So, those are some of the factors we looked at.

Representative DREIER. Great. I would like to just ask Councilman Snyder briefly: We heard that in San Jose that they laid the construction taxes on both new and rehabilitated construction. I am curious to know, while we are talking about some kind of Federal guidelines, what steps specifically would the city of Los Angeles be taking to encourage incentives within those enterprise zones that would be federally established?

Mr. SNYDER. Well, we have bulletined each one of the city departments to the general manager, through our task force, and asked for each department to come forward with their proposals on how they can handle their responsibilities with less burden in a particular area.

We have not yet reviewed those. But the—we have had a number of them come in that I know of. The fire department, even, is talking about some reductions in——

Representative DREIER. But there is a conscious effort, then, on the part of different departments to——

Mr. SNYDER. Oh, yes.

Representative DREIER [continuing]. Provide some kind of incentive at that level?

Mr. SNYDER. Yes. I think planning department is going to be one of the critical ones. And I think that a lot of what San Jose is doing there—it sounds to me is really—by fast tracking approvals, increasing densities, minimizing parking requirements and that sort of thing, working with the planning requirements.

The environmental movement and the movement which says, "I don't want to have anymore neighbors living next door to me," has created in the city of Los Angeles, as in a lot of other cities, restrictions that perhaps are not as necessary in order to protect the quality of life as they might be.

And I think that those can be minimized in these areas, considering that we are trying to take the steps necessary to improve economically the quality of life.

Representative DREIER. We are just looking at some kind of combined effort here on the part of every level of government. And I think it is going to be absolutely essential for the success.

I am very sorry that I have to leave, but I want to thank my colleague, Vice Chairman Rousselot, again. It is a real thrill for me to

refer to him as Mr. Chairman. And I look forward to continuing to do that in the future.

And I want to thank Councilman Beall, Ms. Gray, and of course, Councilman Snyder for participating here. And I will look forward to seeing the success of this enterprise zone concept. And I can tell you, we are going to do everything we possibly can back in Washington to see its full implementation.

Thank you again.

Representative ROUSSELOT. Thank you for joining us, Congressman.

I know Congressman Dreier has been interested in this for some time. He is not paying mere lipservice.

Ms. Gray, both you and Mr. Snyder mentioned the fact that there would be some concern about State review power. And Art, I think you mentioned the potential problem of regulation—State regulation.

Could either one of you describe a little more specifically where you see that could be a problem? What could we do in the Federal legislation to make sure that the county and city government is not hampered or that we give unwarranted veto power to the State government.

Mr. SNYDER. Well, I think that at the beginning it has to be recognized that—I think it is—the concept is aimed at being, "This is a local zone."

Representative ROUSSELOT. Yes, it definitely is. And that we want to stimulate the local activity.

Mr. SNYDER. Right. And that it, I believe, is inappropriate to have a situation in which the State could recommend a local zone or in which the State can veto a zone that has been proposed by local government.

Representative ROUSSELOT. Do you read the current Kemp-Garcia bill—and this is their third version—do you read that as giving, and requiring or recommending consultation with State government—do you somehow read into that, or does the language state, that the State government does in fact have veto power, because I am not familiar with that if it does?

Mr. SNYDER. On my last reading around, that was the way I read it.

Representative ROUSSELOT. OK.

Mr. SNYDER. And our legislative analyst is reading it that way.

Representative ROUSSELOT. OK.

Mr. SNYDER. That it is necessary that they, the State and local governments, jointly nominate a zone.

Representative ROUSSELOT. Right.

Mr. SNYDER. And that they jointly pass enabling legislation regarding zone incentives.

Representative ROUSSELOT. And you are concerned that that statement of joint authority is apt to mean that they could in fact veto?

Mr. SNYDER. Yes. If they refuse to act or if they acted negatively, well, then there would be no joint nomination. I think that allowing them—if we are going to have local control, allowing the State to even come in and say, "Well, the city of Los Angeles has nominated this area and that area as enterprise zones; we disagree; we think it should be the third area, is where it should be," well, that is just going to throw everything into disarray and probably dilute the effort, and create a situation in which nobody gets it.

On the other hand, if an area is nominated and someone in Sacramento has a particular dislike for the local government official in that

area, he could influence either inaction or negative actions—and you end up up a tree.

Representative ROUSSELOT. OK. I think your point is well taken. Now, what about—yes, Ms. Gray.

Ms. GRAY. I think we would agree with everything that Councilman Snyder has said. This should be administered at the local level. And we believe that local government could administer much better than some distance away at Sacramento.

Representative ROUSSELOT. OK. Councilman Beall, did your city or your legal people express the same concerns on this joint authority?

Mr. BEALL. The way the House bill is drafted right now, it requires the joint nomination by the State and the local entity. I think the concerns that have been expressed previously apply as well, and we are also concerned about the strings that are attached and what kind of additional strings the State is going to put on the local agencies.

We are also concerned about time.

Representative ROUSSELOT. The time factor?

Mr. BEALL. If they are not proceeding with legislation at the State level, we have to sit around and wait. We already have our incentive zone in San Jose. And what is going to come out of Sacramento, we don't know. I think that is another concern.

The legal liability question is a big issue, as well.

Representative ROUSSELOT. I know you mentioned that, and I was going to ask you about that. So, maybe we can come back in just one second.

I wanted to pursue this idea that Councilman Snyder had mentioned and Ms. Gray alluded to, about in addition to the problem of potential veto by the State government, is the whole issue of regulatory authority that they might possess—the State—that somehow could be a problem.

Do you have some specific areas in mind of regulatory authority now held by the State that would be a problem, that we should address?

Mr. SNYDER. It is not so much that which they hold now, as the laws which are presently on the books, regulating in general economic activity. One would hope that they would be—in response to the enterprise zone—diminished, in order to encourage the enterprise zone. But we are fearful of them enacting special legislation, aimed specifically at control within enterprise zone.

Representative ROUSSELOT. I see.

Mr. SNYDER. That "What the Lord giveth, the Lord taketh away." That on the one hand they create—they give up certain things in order to provide incentives; on the other hand, they build a new construct of regulation. We are seeing that today, by the way, in cable television.

In the State legislature, we have a bill that would make the State government a super-regulatory agency over all cable television in the State of California, making the PUC as the monitor. And every little hamlet in the State of California that has a cable system would find itself regulated from Sacramento.

And everyone hesitates to categorize either Federal or State Government as power hungry, but when you are on the bottom of the stack, you get that feeling sometimes. And we are concerned about it.

Representative ROUSSELOT. Well, thank you for that comment. I don't know how soon we are going to mark up a bill in Congress.

It has several aspects to it, because there is a joint referral problem, because it has tax implications, as well as other legal implications.

So, I hope that your various people with legal responsibilities will study the legislation further and tell us how we can make sure that we are not putting unwarranted obstacles in the way of the city and county government, because our intention is, that is where the incentives come from. And we certainly don't want to put those other obstacles in the way.

Now, Councilman Beall, do you want to proceed with the legal liability concerns that you started? I know you mentioned it in your testimony.

Mr. BEALL. The concern briefly is that, in the President's descriptive memo that he sent down to Congress regarding the bill, there was mention of the right of neighborhood associations that enter into contracts with the city to provide services for the enterprise zone areas to hold the cities legally liable for breaking those contracts, as well.

What that is defined as, is a concern. And it seems to me that that kind of issue ought to be resolved at the local level, and not at the Federal level. The cities in general across the country have been extremely concerned about their legal liability problems as city governments, especially since the Boulder, Colo., decision of the Supreme Court.

Representative ROUSSELOT. Yes.

Mr. BEALL. And we—with our fiscally strapped city budgets—are having to set aside literally hundreds of thousands of dollars to protect ourselves from legal liability problems, it is a definite fiscal drain on the cities' budgets. So, that is the basic concern that we have, and we do not want our fiscal liabilities expanded.

Representative ROUSSELOT. Well, is it your judgment that we should address more thoroughly the issue of legal liability in this legislation?

Mr. BEALL. I think that you ought to address it in the sense that you make sure that the cities' legal liabilities are not expanded from what they already are. I think not mentioning or not being so restrictive to the cities in that question would be a favorable response for city governments.

Mr. SNYDER. On the 13th of——

Representative ROUSSELOT. Ms. Gray—pardon?

Mr. SNYDER. Excuse me. On June 13, there is a bar seminar in Washington.

Representative ROUSSELOT. On this subject?

Mr. SNYDER. On this whole question of the law and enterprise zones. I know I will be attending on behalf of the city. You can see the curiosity that we all have relative to what is going to happen on the legal side.

Representative ROUSSELOT. All right. Good point. Thank you for mentioning that, I am sure our committees will be covering that.

Ms. Gray, you mentioned the problem of strictly utilizing census tracts as the basis for judgment of where these enterprise zones will be established, and that you wanted to be sure that the local government, city and county, might be able to have a different set of demographic considerations.

Do you want to comment on that further?

Ms. GRAY. I have asked Joan Lowe from the chief administrative office of the county to join me in this response.

Representative ROUSSELOT. OK.

Ms. GRAY. But specifically, the Federal legislation uses unemployment figures.

Representative ROUSSELOT. Right.

Ms. GRAY. And we believe that there should be more than unemployment figures that should be considered. The same way with unincorporated areas. You use what you refer to as "pocket of poverty" designation, which is different from the city's. And we would want you to take a look at that as a consideration.

I think the last thing is that, as Councilman Snyder indicated, when we talk about the enterprise zone, we are talking about south-central Watts and Florence/Firestone area. And there is some interest on the part of Supervisor Dana, and in a recent special motion by Supervisor Edelman, to take a look at other areas such as east Los Angeles and Compton, which equally qualify in the area. And if there was some sort of enabling legislation to deal with that as a consideration, we would appreciate it.

And I would like Joan Lowe, if she would, to further clarify on that.

Representative ROUSSELOT. All right, fine. Thank you for joining us. We appreciate it.

Ms. LOWE. Just to make a specific example in Mr. Gray's district, East Compton, which is an unincorporated area, it doesn't qualify under the enterprise zone criteria for designation, simply because as an unincorporated area, it must meet a stricter "pocket of poverty" designation. While within the city of Los Angeles, other incorporated cities that have received UDAG designation, they automatically start out with that No. 1 criteria already filled. So, they only have to meet one other looser criteria.

Where in one particular area we happened to be looking at, that is a joint city/county area, there are other areas right below that that had just as bad a demographics, but because they are unincorporated area, they are just out of the picture.

So, that is it, simplified.

Representative ROUSSELOT. OK. I appreciate your making that point, because I know that in the county of Los Angeles, we have a great number of unincorporated areas, as you say, that would not qualify for this "pocket of poverty."

Ms. GRAY. Right. They are being cross-averaged with a wealthy community.

Representative ROUSSELOT. They are adjacent to or close to and then would be included——

Mr. SNYDER. Well, they did it to all of the unincorporated territory of the—within the county of Los Angeles, all the unincorporated territory in the averages. In the county you have three types of territories, one the rural, so far out nobody lives there. Two is where people are so rich they don't want to join a city for fear of being taxed. And three, where peple are so poor no city wants them.

And so, then you average them up and that is what you get, is a bad average. The best example from my perception, of course, is East Los Angeles, which lies east of Boyle Heights, south of Monterey Park,

west of Montebello, and north of the city of Commerce. Nobody wants it.

It is extremely low income; demographics very similar to my community. But there it sits. Now, it is averaged into the county average, and we in the city of Los Angeles, actually—it is my position that we would like to take east Los Angeles and the east side of Los Angeles, which have very similar characteristics, and make an enterprise zone across jurisdictional lines with them.

But we can't get the figures out of the—because it is all lumped together in the county.

Ms. GRAY. We would like to do something similar with Watts and Compton.

Representative ROUSSELOT. I think all three of you have made an excellent point. And part of the problem in the formulation of this legislation, as you can imagine, is the tremendous interest, as you have already indicated, from the Northeastern part of the country, where they do have high levels of pockets of unemployment. And that is why they have tended to mention that as a prime criteria, because of course the Members of Congress representing those areas have a great interest in trying to find ways to stimulate this kind of business activity to be encouraged to come into the program.

Mr. SNYDER. Congressman Rousselot, we hope that as they are trailoring this to match their problems, they don't tailor it to cut us out. We saw what happened with the——

Representative ROUSSELOT. Well, I think for Los Angeles County we are going to have to think about more than one zone. That obviously is the case, and I am sure that Members of the Congress from Los Angeles County and the immediate surrounding areas are going to want to be sure that we have more than one zone in the Los Angeles County area.

Mr. SNYDER. Yes. I think that is going to be necessary.

Representative ROUSSELOT. I think it is an absolute necessity. The phone books are divided up that way and everything else. So, I think, as has already been suggested by Councilman Beall, we probably will have to—and you also mentioned it—probably have to have a greater number of zones than we originally anticipated or talked about when the legislation was originally put out.

Well, unless you have additional items, I want to be sure that we hear from our other people who have been nice enough to come and testify. We have people from the business community and from the neighborhood organizations.

We thank the four of you for joining us and coming with us. If you have any other items that you want to submit for the record testimony, we would be glad to have it.

Now we are going to hear from our business panel. We have in our business panel, Willard Z. Carr and Ted Watkins. Willard Z. Carr is president of the Los Angeles Greater Area Chamber of Commerce; Ted Watkins is president of the Watts Labor Community Action Committee; and Ralph Ramirez is here as a representative of small and minority business in the private sector. We are glad that you are here to participate.

Mr. Watkins, we have listed you here, and Fred Miranda.

Mr. MIRANDA. Frank Miranda, sir.

Representative ROUSSELOT. Frank Miranda. I am sorry. Would you like to participate on this panel as a business individual? The MaraVia Project Area Committee, is that right?

Mr. MIRANDA. MaraVia.

Representative ROUSSELOT. MaraVia. Excuse me.

We would be glad to have you participate, also.

All right. We will start first with Ted Watkins, who is president of the Watts Labor Community Action Committee. Thank you for joining us.

STATEMENT OF TED WATKINS, PRESIDENT, WATTS LABOR COMMUNITY ACTION COMMITTEE, LOS ANGELES, CALIF.

Mr. WATKINS. Thank you. I think, basically, what I have heard, the two prior speakers, one from the city of Los Angeles, Councilman Snyder, and one from County Supervisor Deane Dana's office, have just about covered anything that I would have to say about the enterprise zone.

It appears to me there are a couple of problems that we have, as far as community-based organizations are concerned. And that is, just what does the proposed legislation do about that kind of involvement?

We have watched programs for some time now. Some good programs and some bad programs, and the fact that community-based organizations have done a job in this country. Some of them have not. We are concerned about the ones that have. We also are concerned about the efficiency of some of the public programs that have been run.

We have watched one program in the city of Los Angeles that received $60 million a year in the name of poor people, for about 10 years. And at the end of that 10 year period, we could not see anything in the poor community that I come from that it had done.

Public service employment, I heard something about a nonprofit running it before, and public service employment was run by the city of Los Angeles personnel department. And the negative reports that Congress got was because these programs were run by city hall.

In some instances, local authorities have run good programs. In some instances, local authorities have used programs to create bigger and bigger personnel staffs. I have a concern about a program that is legislated in Washington, D.C., by the representatives from the areas. And then when those programs are finally approved and put out into the general area, local representatives no longer are those representatives who represent the local population in Washington. Our Congressmen and Senators have no more to say about these programs.

And many of these programs have been used to unseat some of the representatives who supported these same programs that they put into the local authorities' hands.

It appears to me that somewhere there should be—if there is going to be—I am not advocating that there be State veto power or anything else, but I think the programs that are legislated in Washington, just like the programs that are legislated by our city council, need to have some of that same control remain in Washington, where local groups and local authorities have a place of appeal for those programs.

The free enterprise zone concept is to me a new name for a lot of different things we have had in the past, the model cities, model neighborhoods, urban redevelopment areas, impact areas, you name it. And what we find is that these programs, once they get to the cities, that they do not have the major priorities on doing anything about poor.

And it is nothing new for business and et cetera to get writedowns on land, tax writedowns to build up an urban redevelopment area, for instance in downtown Los Angeles, at the harbor, or up at USC. This is really nothing new. It is a question of what is enterprise? What are economic hubs? What is economic basis?

In Pico Rivera, Ford Motor Co. was an economic hub some 25 years ago, that created entities that made Pico Rivera one of the fastest growing communities in our southern California area.

But UCLA is also an economic hub out in Westwood. And without UCLA out there, Westwood would not be the affluent kind of community that it is today.

An economic hub in Willowbrook/Watts area is the Martin Luther King Hospital. Our feeling is that one of the major things is the major legislation that has gone through Washington in the past 20 years, in the name of poor people, has not really served the people that it was intended to. And approximately 30 percent of every dollar now, that comes into the city, in the block grant and revenue-sharing moneys, are going to administer those funds.

One of the other things is back in the early days of the U.S. Labor Department Neighborhood Youth Core programs, that were legislated to do things for the youth in communities, there were 25 people in the district office of Los Angeles serving southern California, Nevada, and Arizona. Today, there are more than 800 people in the county of Los Angeles, on the payroll of the city and county of Los Angeles, to carry out the CETA program that has been drastically reduced some 60 or 70 percent. But there is not the same reduction taking place in the personnel part of it, of the civil servants that were attached to those programs.

It seems to me that somewhere the programs have to reach those people that we have been trying to legislate for. And somewhere along the line there has to be some guarantees in even this legislation that some of this enterprise zone reach the people that it was intended.

Jobs, alone, to me, does not make a person affluent or get him out of the poverty bag. If that was true, workers in the Appalachians, that have been mining coal for generation after generation, would be some of the richest workers in the country. But instead of that, they are some of the poorest.

The things that seem to bring communities up: when dollars can turn over in it, when businesses in that community spend moneys in that community, when commercial interest in that community invest in it. In the community that I come from, all of the money leaves at 5 p.m. in the evening, and the people that come in there to make the money come in at 8 a.m. in the morning.

We do not have doctors, lawyers, merchants, chiefs, or policemen, sheriffs, et cetera, living in the area that I come from.

We cover in the poorer areas of Los Angeles, four councilmatic districts and two supervisorial districts, both Dean Dana's district we

work in with contracts with the county of Los Angeles and in Kenneth Hahn's district. All of these areas represent some of the poorest people in the city and county of Los Angeles.

I thank you, sir. That is about all I have.

Representative ROUSSELOT. Well, first of all, thank you for being here, Mr. Watkins. And if you don't mind holding on, we will hear the testimony from the others and then we will have some questions for you.

Your point is awfully well taken, that in the past I am afraid that in many of the Federal programs we have designed, all with high purpose and great enthusiasm to help people, in many cases we end up with a lot of bureaucratic jobs and the money doesn't—or, the well being of the program doesn't reach the people it was intended to reach.

I hope that in this enterprise zone program that we do far more than just create a lot of bureaucracies, because that certainly is not our intention.

Willard Z. Carr, president of the Los Angeles Greater Area Chamber of Commerce, thank you for being here. I know you have additional appointments that you have to keep, so why don't you go ahead and proceed. And thank you for joining us.

STATEMENT OF WILLARD Z. CARR, PRESIDENT, LOS ANGELES GREATER AREA CHAMBER OF COMMERCE, LOS ANGELES, CALIF.

Mr. CARR. Thank you very much, Mr. Vice Chairman. It is a pleasure to be here, and I also would share some of Mr. Watkins' concerns, too. And I think program upon program, simply with a laudable objective, does not necessarily accomplish the job.

And that is one of the reasons that we are readily rather excited and very positive about the urban enterprise zone, because if you really apply it according to its stated objectives, it will do exactly what Mr. Watkins is talking about. And we are not going to have the people coming in at 8 a.m. in the morning and leaving at 5 p.m. These will be enterprises which will be funded, operating, and financed on the local basis. And this is the whole basis of the concept.

And I think there are differences with some of these other programs. And I think one of the important things—we are the Los Angeles chamber and we are representing some 3,500 business and professional firms, in five southern California areas—one of the important things, I think—and we have been following the urban enterprise zone since it was first discussed, and we are supporting it, very actively supporting it. And one of the things that we think is terribly important is to bring together the different levels of government, the different areas of government.

I am talking about the county of Los Angeles and the city of Los Angeles. Mayor Bradley has agreed to be on our urban enterprise zone task force, as has Pete Schabarum, the chairman of the board of supervisors—the mayor of Los Angeles, and the chairman of the board of supervisors.

Earlier on, you were suggesting that there will have to be more than one enterprise zone. I think that is true.

Representative ROUSSELOT. For the Los Angeles area.

Mr. CARR. In the Los Angeles area. My understanding, though, is that they are talking about 25 zones, initially. I think there should be, or may be, very well a certain amount of competition between the various groups and between the various political entities, as to which one is going to get the zone or zones.

And certainly, if we have two zones, that makes it somewhat easier. And there is also a combination zone. A zone does not have to stop at a city line or a county line. There could be a combination zone, which could extend across a county and city line. And we have some ideas along that line.

We have a task force here, and I believe you have some information on that. It is headed by Joe Alibrandi of Whittaker Corp. And we have Dick Flamson, from Security Pacific; Jim Zumbridge from USC; Bill Robertson, head of the County Federation of Labor; Bob Erburu from Times Mirror Corp.; Walter Gerken, from Pacific Mutual; Ivan Houston from Golden State Mutual Life Insurance Co.; Shirley Chilton, who is the president of the State chamber of commerce at this time; and Keith Comrie and Harry Hufford, who are the county administrative and city administrative officers, respectively.

We are committed to this process, and we think that it has to have a strong degree of private industry involvement and community involvement. And it has to have political labor groups, community groups. It has to be a broad coalition of all these different organizations.

And this is the gist of our proposal. There are a lot of things yet to be worked out. There are a lot of legal problems, as you indicated here, that are still pending. I think it has to be more than simply the tax incentives. The tax credits alone are not sufficient.

I agree with Mr. Watkins, that jobs alone are perhaps not the answer to changing the situation that some groups find themselves in at the present time. But certainly, jobs are a critical and, I think, a very basic component. And I think we have the jobs, and we build up the capital, and we build up the businesses, and it all has to work together. And that is what we are looking forward to, and that is what we want to be a part of.

Representative ROUSSELOT. Thank you very much for your willingness to be here. We have the memorandum of April 5, which you will call your formation of an enterprise zone task.

Mr. CARR. Thank you.

Representative ROUSSELOT. Now, how soon will this task force report back?

Mr. CARR. Well, I think there are certain things that are pending right now. And we have to wait to have them clarified. The task force has just been constituted. Ed deMerlier is one of the names that you will see mentioned there. He is sort of the executive director of it. He has been spending about half his time on it.

Representative ROUSSELOT. All right.

Mr. CARR. And we are getting ourselves in place, ready to go, and ready to bring these different groups together and start moving ahead in developing the selection of the zone and being in place, so that we will be there the first, with the most.

Representative ROUSSELOT. In other words, when Congress finally acts.

Mr. CARR. When Congress finally acts.

Representative ROUSSELOT. Right. Well, thank you. I am delighted to see that the Los Angeles area is so already actively into this. And without getting too personal here, I notice that Tom Kemp is on your select committee.

Mr. CARR. He is, too.

Representative ROUSSELOT. Brother of Congressman Jack Kemp. So, anyway, I guess you will get some above-and-beyond the normal interest there.

Mr. CARR. We were trying to get Congressman Jack Kemp to participate in a meeting of this group. I think he has been out here in the last week or so.

Representative ROUSSELOT. Well, I think Mr. Garcia has been out here, too. And I hope you will participate in any of the hearings that we have in Washington, where specifics on the legislation are called for, because I am sure many of your members can be terribly helpful in making sure that we know before we write the law what we need to put in it and what we don't need to put in it.

Mr. CARR. We would like very much to participate in that activity.

Representative ROUSSELOT. I know you have to go on to other programs that you have to deal with; so, thank you for joining us.

Mr. CARR. Thank you very much, Congressman.

Representative ROUSSELOT. Ralph Ramirez, if you want to go ahead. Then we are going to hear from Frank Miranda.

STATEMENT OF RALPH RAMIREZ, REPRESENTING SMALL BUSINESSMEN AND MINORITY BUSINESSMEN, LOS ANGELES, CALIF.

Mr. RAMIREZ. Thank you, Congressman. First, I am honored and pleased to be here to represent the small businessman and especially minority businessmen in this discussion of this free enterprise zone concept.

First of all, in reading over the material that we had researched in the past, I agree with the former speakers in that the zones have to be much smaller than city jurisdictions and city boundaries.

For instance, many cities of 30,000 or 40,000 population, or smaller, have pockets of poverty; pockets of unemployment; and pockets of lower and sub-standard businesses that could be included in smaller zones. Zones do not have to encompass anything as large as a 3 or 4 million population city such as Los Angeles. So, they can incorporate smaller areas.

I believe we must have small business incentives, since in the minority community, almost 90 percent of the businesses in minority communities are small businesses, are almost all individual entrepreneurs, individually owned, with their own incentive moneys, are undercapitalized.

Therefore, incentives to small business would have to be a little higher incentives, than they would be to major corporations, where these incentives could be amortized over a period of time.

Also, the incentives for Hispanic businesses must be incorporated to provide, not only on-the-job training and job-training skills, because

the incentives as they are now would encourage major corporations or major businesses to come into these areas and use the local areas for tax incentives and then usually bring in most of their own employees. Therefore, incentives to provide local work force hirees and local labor force training is very important.

And percentage of salaries paid and incentives as tax credits, immediately refundable in cash or applied to that year's corporate or—if it is a sole proprietor—personal tax basis, would be a tremendous incentive for small businesses. I wouldn't want to see that kind of same incentive for larger corporations. It could be abused very easily.

Since in many of the minority areas the populations are just being impacted by the higher birth rate in the Hispanic communities, the elementary schools are about 70-percent minority in some communities in Southern California, high schools at about 50 percent of the population as a whole. And most of Los Angeles County is between 30 to 40 percent. Some of the other populations are being impacted higher.

Therefore, since we lose Hispanics, about 50 percent of our young people before graduation from high school, we have many young people who are underemployed. The incentives to provide employment training and employment as an integral part of this would, I think, solve some of the problems that we have, but employment is not the sole solution. We do need ways in which we can upgrade the quality of life, and that is through training and employment.

Also, the local organizations, I think, should be involved in addition to local jurisdictions. I think it is quite a problem when we do have local cities, especially cities like the city of Los Angeles, where we have almost inaccessible city councils. And think that is necessary that we provide legislation and provide organizations, like Mr. Watkins' and Mr. Miranda's here, input into the incentives and the structures that will be organized in their areas, because each organization has and each community has a personality of its own.

And in southern California, I think we are well-known worldwide for different lifestyles. And I think that that lifestyle and different types of personality crosses more than just community boundaries. And I hate to use the word, that is overused, like "barrios," because that is really not applicable.

What we do have are tremendously different areas. So, tax incentives to businesses, especially smaller businesses, is probably the key. And I would say that a small business, and I would not use SBA criteria—small businesses in SBA criteria are quite large businesses, by minority standards—so, I would say the criteria that we have researched would say under $2 million in sales. That is a small business in a minority business, and that is a large business in a minority community.

These kinds of businesses employ more unskilled people than the average business, and also would have a larger area for training, than the larger businesses. And incentives could be immediately impacted into the cash-flow situation much faster.

The lack of having these kinds of incentives in this bill, I think, could be a major problem in its implementation down the line. And that is really what I had at this point.

Thank you.

Representative ROUSSELOT. Thank you, Mr. Ramirez. We appreciate your being here. Thank you for your thoughts. There is no doubt about the fact that small business, even under your definition of sales, $2 million or under, provides 80 percent of the jobs in this country. If we are to be successful in this enterprise zone activity, we have to make sure that we have made it desirable and provide the incentives for the small enterprise group to be very much involved.

Now, we will have Frank Miranda, who is the research director, and his committee serves in an advisory group to the L.A. County Redevelopment Department, is that correct?

Mr. MIRANDA. That is right, sir.

Representative ROUSSELOT. Frank, thank you for joining us. And if we could have your statement now, we would appreciate it.

STATEMENT OF FRANK MIRANDA, RESEARCH DIRECTOR, ADVISORY GROUP TO THE NEIGHBORHOOD DEVELOPMENT PROJECT, EAST LOS ANGELES AREA, LOS ANGELES, CALIF.

Mr. MIRANDA. Thank you, Congressman Rousselot. We do want to thank you for giving us this opportunity to come here and to speak about this issue.

Although I find myself in somewhat a precarious situation, I need to bring some background to you. Yes, it is true we are the advisory group to the Neighborhood Development project, in the East Los Angeles area. It is the area that has been talked about, the unincorporated East Los Angeles, that is the neighbor to Boyle Heights, Councilman Snyder's group.

The situation, though that we find ourselves in is just to our very doorstep to the north of us, we will have one of the largest developments that has taken place in the East Los Angeles area since the early 1930's of its very development itself, which is entitled, "Los Angeles Corporate Center."

It is an alternative to downtown Los Angeles. We have been working closely with these men, the developer whom is Edward C. Ellis, of Ellis & Associates, who has done Fox Hill Mall. There is another one out in Culver City that he is developing and has done others throughout the State.

We have found it very exciting in our community because we do realize this type of development, 210 acres, 17 six-story buildings, is going to stimulate, of course, the economy in our particular community. We realize this.

So, when we look at enterprise zones, we say this is a type of a project that would definitely be something we would want to see. We realize once again that it will stimulate, that it will give incentives. A particular project wanting to come, or particular businesses wanting to come into an enterprise zone, where it is just a stone's throw away from a development like this, of course, would be very advantageous, when we look at, first of all, the economy of a conglomerate, where, No. 1, you have all of your businesses coming close together which help in the production of a good product, or service, or whatever that may be.

We look at it, also, for the economy of scale. And we say, this is a very grand thing. We look at it for the economy of infrastructure. The country has provided a great infrastructure in our particular area.

We look at it for the economy of transportation. We have three major freeways that interchange into all of them throughout the Los Angeles County. So, these things are all good.

But then, on the other hand, the precarious position I find myself in is, once I start to really look at this particular piece of legislation, I begin to wonder. And so, I want to address the two issues that I was writing about—to speak about. One of them is management and the other one is legislation.

When we look at management, the first particular area that we look at it the quasi-official. We look again, and we say, as far as a community base, we are unincorporated. Supervisor Edelman is very receptive to us, but yet he handles a very large area. We say, well, we don't want another commission or another type of quasi-official group that is not responsive to the individuals because they are not elected—they are appointed. We can't go to Edelman and say, look it, we want this, or we want this specific thing done, or the legislation has mandated this.

The other thing we look at is, we say, well, commissions have set themselves up, and even right now in Los Angeles city, a commission is going through a situation with the chief of police over there, and unresponsive. Mayor Bradley says, I can't do anything—that is a commission duty.

So, we say, well, we don't want quasi-officials. On the other hand, we look and we say, shall we give the authority, the managing authority, to the local businesses, and here we look at today. And I just use it to parallel it, although it may not be the best example that is available, but the National Football League, where owners have come in and, yes, caused great employment, have stimulated the economy in a large way. But yet the minute they are not too happy, they start to threaten. The threat is, give me what I want or I will move somewhere else. I will move this $30 million or $40 million franchise out of here.

And that is the same thing we look to. Will the local businessman grab the Federal Government by the throat, and say, give me what I want or I will move my business somewhere else. "Thank you for the tax writeoffs; thank you for the work crew; thank you for all these wonderful things." But, really, in essence, are they going to be able to have that kind of authority? So, we say, well, we don't want the local business, then, to do it.

We go back to the basics of the democratic society, and that is the elected officials, because we can go to those individuals. We elected them, and in today's time right now, especially, we are having the most exciting events that have ever happened to the Hispanic community, where we see more and more Hispanics running for offices. We can go to these individuals. I can talk to a Richard Polanco, or Gloria Molina, or to my Congressman, and say, "Hey, we want you to do something about this particular area."

But then, as the fine gentleman from up north came and said, the marketing of it becomes difficult, because we were talking to Ellis & Associates. We said:

What do you think about enterprise zones? What do you think if we went over there and talked in favor of it?

He says:

Well, it sounds like a great idea. We would like something like that. But the minute that you take free enterprise away, that there is some local official who says, well, we are not so sure we want that, the minute they start to put in the idea of employment, that there must be a specific number or percentage of people that must be hired, it becomes unrealistic to them. And I can see their point, because if you are a producer of a product, you are going to want to employ a producing-type labor force.

So, I look and I say, well, realistically what is it, then? Maybe the equal opportunities policy can be upgraded and that can be implemented, rather than going to significant segments of the community that would cause an enterprise zone to not be the type of product that you would really want it to, that the businessman himself would frown upon. Where he says,

Well, you mean I have got to have one of these kind and one of these kind and one of that. I am not so sure I would want that. I am not so sure I even want to come in.

And when they started to give me this feedback, this huge developer, I am saying, "Hey, this is the kind of guy who is bringing in United States Steel, Xerox, Burroughs, and IBM, into our community." And he is saying,

I am not sure I would want to come in if I had an enterprise zone situation blanketed over me, with this kind of incentives involved.

So, Congressman, I look and I say, yes, enterprise zones are a good thing for communities. But we want to be careful that we don't help ourselves too much, and that is a very funny statement coming from a community person. But we don't want to help ourselves too much. What we want to do is make sure that we can belance the enterprise zone concept out, where both the firm or corporation, or entity that is being invited in can—yes—have tax incentives that will cause him to want to come into the community.

Yes, there is a big work pool right outside his front doors. Yes, all the economic issues are fine, the climate is fine. But on the other side, we look and say, in marketing this product, we need to make sure that enterprise zone. And No. 2, look at maybe that equal opporment, one, to determine whether or not policies have been followed on that enterprise zone. And No. 2, look at maybe that equal opportunities issue a little closer, and say that maybe this can be dealt with, rather than taking in all the significant segments of a community, and saying, you need to have a little of all of this.

So, that is the precarious position I find myself in. I find myself saying, yes, on the one hand, and saying, well, but I think we need these kinds of things. So, those are my statements on management and also the policy.

Representative ROUSSELOT. Well, thank you, Mr. Miranda, and also to your organization, for being willing to be here and testify.

Mr. MIRANDA. I am sorry; I have no prepared statement.

Representative ROUSSELOT. What you have stated has been recorded here, and you will have a chance to alter that, if you would like to.

Mr. MIRANDA. Congressman Rousselot, I didn't know if the clarification of some of the areas that the other panelists had spoken to would be appropriate at this point, or would that be superfluous?

Representative ROUSSELOT. No. Fine. I was going to ask Mr. Watkins first. That would be fine. You want to comment on some of the things that others have said?

Mr. MIRANDA. That is right.

Representative ROUSSELOT. That will be fine.

Mr. Watkins, you talked about economic hubs of various committees. Do you think it is necessary to attract large businesses in to help a depressed area, so that they are kind of an anchor? For instance, in large shopping center developments, they always try to have three or four large department stores, that kind of serve as anchor groups. Do you feel that it is necessary to have larger businesses be one of the hubs, one of these economic hubs of which you speak?

Mr. WATKINS. Yes, I do, particularly in south-central Los Angeles. Watts has no businesses that are operating whatsoever, no industry is in Watts. The industry that was funded by the Federal Government, under the "Impact Program," called the Watts Industrial Park, was placed in Lynwood, Calif.

It is a major need in any poor community to have that kind of a hub to do the revitalization of the community, as far as the economics are concerned.

Representative ROUSSELOT. So, in your judgment, then, it is going to be important that some of these larger corporations are very much involved in the enterprise zone?

Mr. WATKINS. That is my position.

Representative ROUSSELOT. I know that when you began your testimony, you expressed your concern that we not go the, quote, "normal route," we have taken in the past in the Federal Government. Just setting up a large program, funding it, was quite a few dollars. Structuring quite a group of people, government workers, I think you said—you mentioned the CETA program, for instance—and then expecting it to work.

Do you have some specific suggestions of ways that we can state that in our legislation, so that that doesn't happen again?

Mr. WATKINS. I think in 1982 it is pretty tough to undo some of the things that were done with the breaking down of the flow and controls out of Washington, in the name of decentralization and in the name of economizing. And I think that if we really looked into it, we would find that in order to administer the various programs approved in Washington, it is costing a lot more of the taxpayers' dollars in 1982 than it was supposed to cost.

It would seem to me that if there was going to be 25 communities in the Unted States that were going to get enterprise zones, that in Washington, D.C., there is already in place agencies that could handle that. HUD, for instance, could handle that. But the Department of Commerce could handle it. Those two agencies are in existence and have been in existence, and have some spare people around right now.

And it would seem to me that preference, as far as getting the job done with the least amount of moneys for administering it, would be retained by those people in Washington and the control that approved it.

Representative ROUSSELOT. Don't set up new bureaucracies, but use ones that have already been successful in implementing something?

Mr. WATKINS. That would be my suggestion.

Representative ROUSSELOT. Well, I appreciate your thought on that.

Mr. Ramirez, you talked about how incentives should be targeted to small businesses. And this is an excellent idea, since we have already mentioned that 80 percent of the jobs come from small businesses.

What types of incentives—even though you mentioned a couple—would be most helpful to people in the small business community to come in and want to be part of this enterprise zone effort?

Mr. RAMIREZ. The credits should be primarily geared to small companies. Smaller companies traditionlly hire larger percentages of unskilled labor. These targeted areas are primarily residential areas and areas adjacent, that have high unemployment. And most of them are underemployed, not entirely employed to complete areas that they could.

Therefore, the credits should be in those regards. I would think the credits should be in the form of tax credits that could be used either in cash or—which would provide incentive—also directly relating some of the incentives that were organized a few years back, that were never used properly, because I think they were—again—heavily bureaucratized, if you want to use such a word. That meant that labor that was provided from certain occupational areas would provide additional credits.

In other words, they are not required that they have to have these numbers of people. But if they do, they get additional credits than they would if they did not. The incentive is there; they do not have to take advantage of it, if they choose not to.

Also, many of the firms, like the Ellis Co., are bringing in highly skilled, highly specialized companies, with large percentage of skilled labor, which doesn't really impact the high unemployment rate of underskilled and underemployed communities adjacent. Therefore, if the incentives were involved for on-the-job or training programs, additional incentives would be created.

Therefore, the large pool of unemployed and underemployed people that are adjacent could be trained profitably. Without the profit incentive and without—I don't believe in subsidies in the sense that we are providing cash outlays, but I think if we can provide incentives to an employer to do the job that he would do anyway, but he could make a profit doing it, I think that we provide an atmosphere for success.

I think, also, the insurance carriers should be provided credits. In the Watts area, after the Watts riots, and in east Los Angeles now, after the same similar problems of the 1960's, higher insurance rates are in place and are tradition. And so, therefore, credits to these insurance companies to do business as an incentive in these areas would be important.

Also, the banks and savings and loans, finance companies, should also be provided incentives to do business in these areas, through these mechanisms. Not that they are required to; not that the firms are required to do business with these banks, or savings and loans, or finance companies. But if they do, these additional incentives would be available to them, therefore making the cash flow situation on the bottom line of the business much more of an advantage for them if they do this. They do not have to.

Again, transportation was not mentioned, but I think that it is a major situation throughout the Los Angeles basin and most urban areas. Transportation is a major bugaboo in Los Angeles. We are primarily wheel-oriented. But we do not have a transportation system that provides transportation for the unemployed and the underemployed to the labor pool areas.

Most of the companies that have moved from downtown central Los Angeles over the last 20 years, to Orange County and other areas, have taken what labor that was mobile with them. The others remained unemployed, largely.

Therefore, incentives to transportation companies to provide transportation in these areas, in the form of credits, would be an incentive either for small transportation companies to begin or for existing companies to expand. And I believe this would provide an atmosphere for success, if we couple the ability for employees to get to employment, employers to have incentives to hire people who have the innate intelligence, but for many different reasons do not have the skills or the education to master the work in which they might be provided, incentives to make them successful, and incentives for developers and for businesses to come into the area.

As you know, developers put these packages together, like the Ellis Co. situation that was mentioned earlier, but there is no incentive in this bill for them, either. And so, we should have some kinds of incentives. I can think of two or three off the top of my head, and that is primarily in the lending areas, takeout loans, rollover loans, which would provide them the incentives to come in and do business in these areas that we so euphemistically call "blighted." I think just to say "underemployed" would be a better word.

And if we could change the credit for these companies, provide them an incentive to come into areas like Boyle Heights, and Highland Park, and East Los Angeles, and the Watts area, and the Willowbrook, and many of these areas where high number of people are ready to work, but provide an incentive for them to find an environment and for companies to move into the area I think would be four, five, or six of the major areas that I think are concerned.

Thank you.

Representative ROUSSELOT. Thank you for your thought, too, about the insurance incentive, because I am sure that is a factor with many small businesses, particularly.

Mr. RAMIREZ. Yes. Well, to give you, for instance, a small firm doing business——

Representative ROUSSELOT. Mr. Beall mentioned the liability problems——

Mr. RAMIREZ. Right.

Representative ROUSSELOT [continuing]. Of the local government. There is also a liability problem for the business, also.

Mr. RAMIREZ. That is right. Because of the small companies in east Los Angeles right now who would try to get a similar—say, business insurance—package if he were just adjacent, 2 or 3 miles away in Alhambra, it would be about one-third of the premium and about one-third of the coverage. So that, he would pay three times as much, another way to say it, for one-third of the coverage.

So, it is very important that—because we were stuck with fair plan—incentives be assigned risk type situations, where the small businessman can't get the coverage that he needs. And if he does get it from various four or five different insurance companies, he is paying an arm and a leg for it, which makes it unprofitable again to do business in the area. Those incentives would be very important for him to protect his investment.

Representative ROUSSELOT. Excellent point. I appreciate your listing several of the other areas of important incentive to encourage the small businessmen to participate.

Mr. Miranda, I notice you following with interest as this testimony went—or questions went on with the others. You may want to respond in some areas, because I saw you kind of shaking your head several times. Let me ask a specific question and then you can follow through with other points you wish to make.

Has the Los Angeles County Redevelopment Department specifically been in contact with your advisory committee to discuss enterprise zones at this time, or been thinking about it, or asking your participation and input for this type of legislation?

Mr. MIRANDA. We have been in contact with the manager and we have brought the particular idea to him, as far as enterprise zones. One of the things that the Los Angeles County Redevelopment Agency is doing is changing the direction for the next couple of years to economic development.

The reasoning for this is that they can see, of course, that the housing is an issue right now that is just untouchable. Those that would be considered for low and moderate income do not fit, just cannot buy. They fit the criteria, but they don't—they can't buy.

So, economic development we see as something that is very interesting, but as Ralph has just mentioned, it is true the insurance situation is a very drastic one, also security. Although we feel now that we can provide a greater means of security to businesses that do come in, that has also been the question. Many individuals we have invited in, corporations to come in, take a look at prime areas, prime land, and they have said, well, the liability is going to be heavy for me as far as insurance and is the security there. There is always that particular stigma, sort of that it hovers over an area, economic obsolescence, saying, well, am I going to get robbed, am I going to get hit over here?

And so, this is why I was nodding my head, yes. These are the kinds of incentives that are going to be very necessary for these types of enterprise zones, especially in the center or urban center areas like you have, like East Los Angeles, Watts/Willowbrook, because I know that these are going to be things that—the first two questions they ask, the first two.

Representative ROUSSELOT. Mr. Watkins, I would be interested in hearing about the WLCAC project with which you were involved. What lessons can we learn from your project that we can transfer to the enterprise zone concept?

Mr. WATKINS. When you say project, there are many projects; as a matter of fact, today there are about 49 different projects going on. We wrote back in 1968 that Model Cities proposal to HUD for the city of Los Angeles. that was the one that was accepted, that Mr. Snyder talked about. We wrote the impact package.

And we have done the urban redevelopment package for the county of Los Angeles, which is presently being worked on. The only urban redevelopment package that I know of that was put together that did not displace people before they had a house that was already there in place.

The project that we are dealing with right now is using Martin Luther King Hospital as the hub; $100 million a year is going into that hospital in salaries. More than 2,200 people are employed there, but they do not spend $1 million of that $100 million in that community, because of the lack of any facilities in the community to spend it.

We have now approximately 300 units of housing that we have completed in the area, and in another 30 days, will have completed another 200 units, 120 units of senior citizens, single-family houses for low- and moderate-income people. We have a little bit different program than most operations have. We do not finance our houses through a mortgage company. We have section 8's on our houses for 20 years, and then we give them away at the end of 20 years and 1 day.

We are finishing, I guess, another 60 single-family apartment units, where we—they are attached walls.

We operate in south-central Los Angeles a transportation system. We own 150 vehicles ourselves. We have the largest black-owned building material supply operation in the United States. We have grocery stores, filling stations, restaurants, and a shopping center—an operation called, "Youth Enterprise." And out of that grows another operation called, "Toys-You-All."

We are compietely, 100 percent, a nonprofit. We looked at all of the big operations, the big enterprises, and the big industries, and all of them. And I worked in Ford Motor Co. for 18 years. And I realized that there was one operation in the world that seemed to be the most prosperous and doing the best, and that was the Catholic Church, a nonprofit community-based organization, owns the Watergate Hotel and a lot of other things, a number of other entities, and probably owns Bank of America, but has also got 600 million followers.

So, we felt that if there was going to be a true community operation, it had to be nonprofit, without any profits operations spinning off from it.

And that is how we have done it. Those are the kinds of things we are doing. We operate childcare centers, senior citizens—we have 10 different senior citizens' clubs that meet. And then we have out in the community 27 senior citizens' clubs, that each one has 100 members. That is the arm of the organization that has all volunteers, and they go out in the community and do whatever they want to do about things.

We have a beautification program. We have planted 30,000 trees in south-central Los Angeles.

Representative ROUSSELOT. How many?

Mr. WATKINS. 30,000.

Representative ROUSSELOT. Wow.

Mr. WATKINS. Since 1966, we have built 12 parks out there in Los Angeles City.

These are the things that we do.

Representative ROUSSELOT. Well, I notice that there was quite an article about you and your organization in the Washington Post.

Mr. WATKINS. Uh-oh. [Laughter.]

Did you get the two—the resolution by Senator Green and the one by——

Representative ROUSSELOT. Yes.

Mr. WATKINS. OK.

Thank you.

Mr. MIRANDA. Congressman Rousselot.

Representative ROUSSELOT. Yes.

Mr. MIRANDA. There is one more point I wanted to make as far as something to consider into legislation. I have not quite seen the bill, but I am wondering, also, if the local educational institutions can be a viable source to help as far as the preparation of individuals to work in enterprise zones or Ellis project developments, or any kind of developments.

You see, right now we are in the age or the era of technical communications.

Representative ROUSSELOT. Yes.

Mr. MIRANDA. Very much so. And we are looking and we are saying, how can our local institutions, our local educational institutions, starting even at the junior high school level, although high school and the local colleges would be fine enough, to start incorporating these types of technologies, starting to incorporate these kinds of engineering into the curriculum, so that you are ready to produce.

You are really ready to produce a work force that is ready to go in and secure those jobs, because it is true the technical jobs that are there right now, when we are looking in our community, we are saying, well, what could we possibly take, besides maybe one or two, maybe three administrative positions. Other than that, it is all the blue-collar positions.

So, we are saying, this is something that we also think that can be incorporated into legislation and thought of very carefully, as far as education being meaningful nowadays, that it is incorporated into the bill in some way, that wherever an enterprise zone is at, that the local institutions also now start to look at their curriculum in a different way that would prepare students and prepare the young.

You know, we are coming into graduation. The "Class of 1982" is graduating. They always tell them, "You are the class of the future; you are the group of the future," but yet ill prepared.

Representative ROUSSELOT. Well, your point is well taken. And I think we have addressed in the bill an effort to try to involve the local educational institutions that have vocational training—involved in the program.

But I wish to thank all three of you for being here, for being willing to come.

And Mr. Watkins, you should know your fame has spread to Washington, D.C. They certainly found out about you there.

And Ralph Ramirez, thank you for being here to help us talk about small business, because I know you and several members of your family are certainly engaged in that every day.

And Frank Miranda, thank you, too, for representing your advisory committee and group.

And I guess with that we will just call this to a halt. Anything that the three of you want to submit in addition, please, may we have it. You have a couple of weeks to get it to us. We would be very grateful for that additional material.

Thank you all for coming today.

The subcommittee is adjourned.

[Whereupon, at 3:20 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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